

1999

ANNUAL REPORT

SOUTHWESTERN POWER ADMINISTRATION

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LETTER TO THE SECRETARY



DEIHL
ADMINISTRATOR

The Honorable Bill Richardson
Secretary of Energy
Washington, DC 20585

Dear Secretary Richardson:

At the dawn of the 21st century, Southwestern Power Administration looks back with pride on almost 60 years of public service. In an evolving industry, Southwestern has provided a reliable source of energy and has fostered economic growth in our six-state region.

This year's many challenges included project maintenance outages, high wholesale prices, and issues related to the development of an Independent System Operator and Regional Transmission Organization Tariff. Our FY 1999 revenues totaled \$115.8 million and Southwestern marketed approximately 6.7 billion kilowatt hours of hydroelectric power to customers. This energy and 2.2 million kilowatts of capacity were generated from the 24 Federal hydroelectric projects in our system.

The competing uses of water resources, including flood control, fishing and fisheries, recreational uses, and water supply require constant attention. We work closely with our customers, the U.S. Army Corps of Engineers, Federal and State agencies, and other involved parties, keeping the lines of communication open to address common issues. We provide our customers' contractual hydropower benefits while remaining flexible to meet competing use demands when possible.

We enter the 21st century with a sense of accomplishment and anticipation. Southwestern is positioned to respond to the future needs and challenges of the electric utility industry.

Sincerely,

Michael A. Deihl
Administrator

SOUTHWESTERN

The Southwestern Federal Power System encompasses the operation of 24 hydroelectric power plants by the U.S. Army Corps of Engineers (Corps) and the marketing of power and energy from those plants by Southwestern Power Administration (Southwestern) of the U.S. Department of Energy (DOE). The map on page 4 depicts the region served by Southwestern and its customers.

Southwestern is headquartered in Tulsa, Oklahoma; its dispatch center is in Springfield, Missouri; and its maintenance crews are based in Jonesboro, Arkansas; Springfield, Missouri; and Gore, Oklahoma. To integrate the operation of the hydroelectric generating plants and transmission of power to its customers, Southwestern maintains 1,380 miles of high voltage transmission lines, 23 substations and 46 microwave towers.

Thirteen of the 24 generating plants are scheduled directly by Southwestern. Nineteen generating plants contribute to the interconnected system operations. Generation at five projects (Denison, Narrows, Sam Rayburn, Whitney and Willis) is used to serve specific customer loads.



MISSION STATEMENT

Southwestern Power Administration's mission is to market and reliably deliver Federal hydroelectric power with preference to public bodies and cooperatives. This is accomplished by maximizing the use of Federal assets to repay the Federal investment while balancing power needs with the diverse interests of other water resource users, and implementing public policy.

SOUTHWESTERN'S VISION

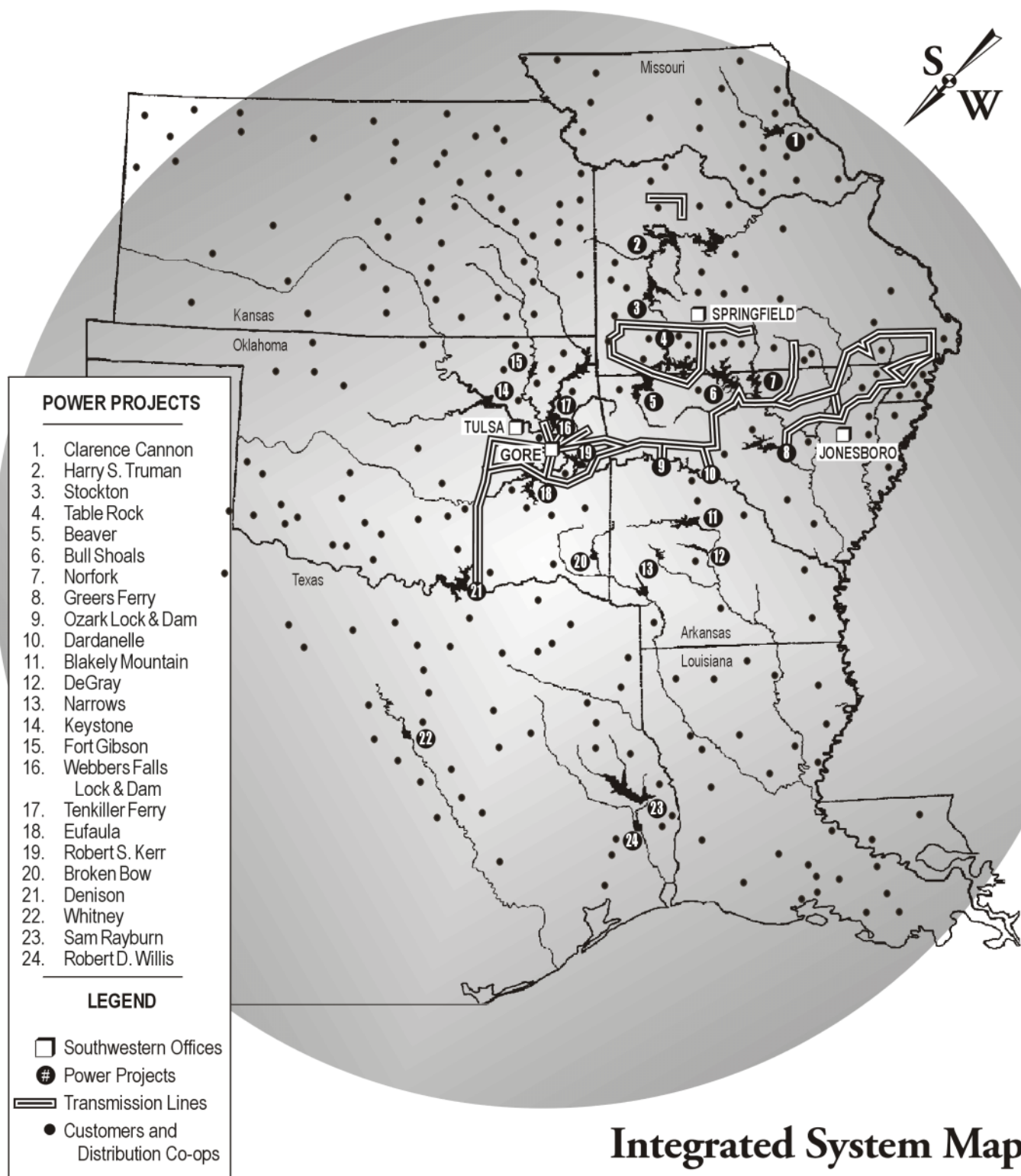
Southwestern has an open and trusting partnership with its customers in meeting their business expectations for operation of the Federal hydropower system. The Agency also maintains the confidence of the American public by meeting its financial obligations while providing good stewardship of regional water resources. The Southwestern work force is cost conscious, team based and empowered to meet customer expectations.

SOUTHWESTERN'S CUSTOMERS

Generation & Transmission Cooperatives	10
Distribution Cooperatives	2
Military Installations	3
Municipalities	44
Joint Action Agency with Allocation	1
Joint Action Agency (serving 33 municipalities with allocations)	2

Southwestern's customers serve more than 6.5 million electric consumers.

Southwestern Power Administration



Integrated System Map

Significant Accomplishments - FY 1999

Southwestern achieved a number of significant objectives during FY 1999. Some of these were:

Closed the Tupelo Maintenance Facility in FY 1999, as part of Southwestern's Organization 2000+, a strategy designed to assist in lowering operating costs while, at the same time, protecting the interests of Southwestern and its employees.

Prepared extensively for Y2K, ensuring that the arrival of the year 2000 would be uneventful. Southwestern readiness teams devoted time and resources to averting system failures and loss of service to customers.

Continued participation in Southwest Power Pool (SPP) Independent System Operator/Regional Transmission Organization (ISO/RTO) development.

Saved 11.2 million barrels of oil, 3.2 million tons of coal, or 68.5 billion cubic feet of gas under actual water conditions through hydropower generation.

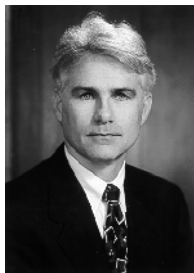
Achieved a Control Compliance Rating of "Pass" under the North American Electric Reliability Council (NERC) performance standard for each month of the rating period.

Conducted a customer survey. Out of a possible rating of five, Southwestern achieved a 4.3 average, indicating that customers were very satisfied with the agency's superior performance.

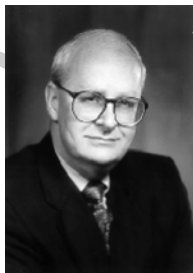
Conducted monthly mandatory educational sessions to enhance employees' understanding of Agency functions and to facilitate better customer service for Southwestern and DOE.

Maintained a safety record of a lost time injury rate of zero for FY 1999, while the average industry rate was 1.3 according to the Bureau of Labor Statistics.

Continued the AIM program (Achievement, Improvement and Measurement) which establishes performance goals with Agency-wide monetary awards for their successful accomplishment. In FY 1999 Southwestern met 7 of 9 performance goals, an outstanding achievement.



DALLAS COOPER
ASSISTANT ADMINISTRATOR
OFFICE OF
MAINTENANCE



GEORGE GRISAFFE
ASSISTANT ADMINISTRATOR
OFFICE OF CORPORATE
SERVICES (CFO)



GENE REEVES
ASSISTANT ADMINISTRATOR
OFFICE OF CORPORATE
OPERATIONS



LARRY YADON
GENERAL COUNSEL
OFFICE OF
GENERAL COUNSEL

FY 1999 RATE ACTIVITIES

Southwestern's mission, contained in the Flood Control Act of 1944, specifies that power is to be sold at the lowest possible rates consistent with sound business principles. It also requires that the capital investment in the hydropower system be repaid over a reasonable period of years. Southwestern's commitment to timely repayment requires that a rate study be done every year. During FY 1999, Southwestern completed power repayment studies on the Integrated System, Sam Rayburn Dam (Rayburn) project and the Robert D. Willis (Willis) project.

The 1999 studies determined that no rate change was necessary for the Integrated System, a rate increase was required for the Willis project, and an extension of the Rayburn rate was needed. Customer involvement was the key to the successful implementation of these rate actions. The rate adjustment for the Willis project and the Rayburn extension were approved on an interim basis by the Secretary of Energy effective October 1, 1999.

Early in FY 1999, Southwestern submitted a modified rate filing to address certain aspects of the terms and conditions in the Integrated System Rate Schedules that needed to be revised to clarify and address changing market conditions experienced during FY 1998. The Federal Energy Regulatory Commission (FERC) approved these revised Rate Schedules P-98B and NPTS-98B on April 15, 1999. During FY 1999, Southwestern's annual review of the Integrated System revenue requirements reflected the need for a 1.3 percent or \$1,302,630 annual revenue increase. Based on the savings in administrative and regulatory time and effort, as well as savings of accompanying expenses, and the potential that a rate increase in one year will be reversed in a subsequent year, the Administrator deferred the 1.3 percent revenue increase in accordance with Southwestern's plus-or-minus 2 percent Rate Adjustment Threshold. In FY 1998, the Administrator deferred a 0.3 percent revenue decrease.

The FY 1999 review of the Willis project indicated the need for an increase in annual revenues of 11.6 percent or \$35,004. On September 15, 1999, the Secretary of Energy provided interim approval of the Willis revenue increase and forwarded the rate filing to the FERC for final approval. The repayment study for Rayburn indicated that the rate was sufficient to meet repayment criteria and was extended on September 15, 1999, by the Secretary of Energy for one year through September 30, 2000.

STANDARDS OF CONDUCT

On February 12, 1999, the FERC provided final acceptance of Southwestern's Standards of Conduct for transactions involving its transmission system. Southwestern was the first Federal Power Marketing Administration to receive approval of both its Open Access Transmission Tariff and its Standards of Conduct.

SOUTHWEST POWER POOL

During FY 1999, Southwestern, as a member of the Southwest Power Pool (SPP), a regional reliability council, participated in the development and implementation of SPP's comprehensive open access transmission tariff. Southwestern continues to participate in the steps SPP is taking towards becoming an Independent System Operator/Regional Transmission Organization which will have direct and significant impacts on Southwestern and its customers.



SUMMER OF 1999

Although lake inflow and generation for FY 1999 were well above normal, Southwestern experienced a difficult summer in meeting its contractual electrical demands. Extremely hot, dry weather decreased the area's water resources while sending its demand for electricity to new heights. On August 18, 1999, Southwestern set a record system peak demand of 2,101 megawatts.

During that same time, Southwestern was without the service of six hydroelectric power units totaling 150 MW of generating capacity. The unavailable units were all located at lock & dam projects along the Arkansas River navigation system, forcing the use of more water from the larger lakes in the system. While one unit was undergoing a planned major rehabilitation, five other units had been forced out of service by a variety of mechanical failures.

The combination of heavy summer loads and other activities such as electronic tagging, handling line loading relief problems, meeting reserve requirements, and maintaining power system voltages provided challenging conditions for Southwestern's Operations Center located in Springfield, Missouri. Fortunately, Southwestern's staff proved extremely capable of meeting those challenges while providing for all the customers' needs. Additionally, the Corps staff worked diligently to assure as much electrical capacity was available as possible.

ALTERNATIVE FINANCING

The condition and reliability of the electrical generating units located at the Corps projects is essential to Southwestern and its customers. Having the ability to generate electricity when needed, especially during peak demand times, is critical in marketing dependable electricity to meet our customers' needs. Therefore, it is imperative that the generating units be well maintained and repaired in a timely manner.

The Corps does an excellent job of budgeting and scheduling the work needed on the units. However, as many of the projects in the system are approaching forty or more years of age, more unplanned repairs on the units are necessary. The unanticipated work can easily deplete the Corps funding, causing repairs to be delayed until additional funds can be acquired through the normal budget cycle.

Recent electrical industry changes have resulted in extremely high costs to replace the electricity no longer available from a disabled unit. As a result, Southwestern has developed a Memorandum of Agreement (MOA) with the Corps and customers. It allows customers to directly fund maintenance, rehabilitation or modernization activities at the Corps hydroelectric facilities. This enables the Corps to reduce the duration of unit outages and continue providing a needed reliable product.

Most of the MOA was developed in FY 1999, with all three parties signing the document in October 1999. Southwestern is looking forward to working with the Corps and its customers in developing Sub-Agreements to the MOA that will assure funds are provided when necessary to keep the hydroelectric power projects a viable and reliable source of electricity into the 21st century.

Y2K-OK

Southwestern devoted significant resources to Y2K preparedness throughout FY 1999. We completed mandatory power system and business continuity plans and conducted two successful readiness drills. Southwestern's critical energy management and financial systems were certified Y2K compliant.



100 West Fifth Street
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Independent Auditors' Report

The Administrator of
Southwestern Power Administration
U.S. Department of Energy:

We have audited the accompanying combined statements of assets, Federal investment, and liabilities of the Southwestern Federal Power System (SWFPS) as of September 30, 1999 and 1998, and the related combined statements of revenues, expenses, and accumulated net revenues, and cash flows for the years then ended. These combined financial statements are the responsibility of SWFPS' management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin 98-08, *Audit Requirements for Federal Financial Statements*, as amended. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall combined financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of the SWFPS as of September 30, 1999 and 1998, and the results of its operations and changes in accumulated net revenues, and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued reports dated May 10, 2000, on our consideration of the SWFPS' internal control over financial reporting and on its compliance with laws and regulations.

Our audits were conducted for the purpose of forming an opinion on the combined financial statements referred to in the first paragraph of this report, taken as a whole. The accompanying combining information is presented for purposes of additional analysis of the combined financial statements rather than to present the financial position, results of operations and changes in accumulated net revenues, and cash flows of individual projects. The combining information has been subjected to the auditing procedures applied in the audit of the combined financial statements and, in our opinion, is fairly stated in all material respects in relation to the combined financial statements taken as a whole.

The information presented in management's *Overview and Performance Measurements* is not a required part of the combined financial statements, but is supplementary information required by OMB Bulletin 97-01, *Form and Content of Agency Financial Statements*. We have considered whether this information is materially inconsistent with the combined financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the combined financial statements and, accordingly, we do not express an opinion on it. The performance information included in management's *Overview and Performance Measurements* is addressed in our auditors' report on the internal control over financial reporting in accordance with OMB Bulletin 98-08, as amended.

This report is intended for the information of the management of the Southwestern Power Administration and the U.S. Army Corps of Engineers and is not intended to be and should not be used by anyone other than the specified parties. However, the report is a matter of public record and its distribution is not limited.



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a member of KPMG International, a Swiss association.

KPMG LLP

May 10, 2000

SOUTHWESTERN FEDERAL POWER SYSTEM

Combined Statements of Assets, Federal Investment, and Liabilities

September 30, 1999 and 1998

Assets	<u>1999</u>	<u>1998</u>
Utility plant:		
Plant in service	\$ 1,136,797,318	1,127,351,333
Accumulated depreciation	(379,425,418)	(334,758,901)
Construction work in progress	61,811,183	34,852,112
Retirement work in progress	132,590	125,689
Net utility plant	<u>819,315,673</u>	<u>827,570,233</u>
Current assets:		
Unexpended appropriations	16,196,927	19,560,848
Accounts receivable	15,206,587	15,353,197
Materials and supplies, at average cost	6,132,917	5,871,287
	<u>37,536,431</u>	<u>40,785,332</u>
Banking exchange receivable	4,865,231	6,256,170
Deferred workers' compensation	5,497,294	2,328,233
Other assets	30,558	20,446
Total assets	<u>\$ 867,245,187</u>	<u>876,960,414</u>
Federal Investment and Liabilities		
Federal investment:		
Congressional appropriations	\$ 2,276,611,684	2,191,733,185
Interest on Federal investment	718,695,063	695,431,161
Transfers from other Federal agencies	30,421,612	27,515,782
Gross Federal investment	<u>3,025,728,359</u>	<u>2,914,680,128</u>
Funds returned to U.S. Treasury	(2,275,377,933)	(2,177,664,411)
Investment of U.S. Government	750,350,426	737,015,717
Accumulated net revenues	93,005,291	111,920,057
Total Federal investment	<u>843,355,717</u>	<u>848,935,774</u>
Current liabilities - accounts payable and accrued liabilities	10,671,925	14,727,101
Accrued workers' compensation	5,497,294	2,328,233
Other accrued liabilities	280,792	5,718
Purchase power and banking exchange deferral	7,065,128	10,599,366
Hydropower revenue deferral	374,331	364,222
Commitments and contingencies (Notes 3, 5, 6 and 7)		
Total liabilities	<u>23,889,470</u>	<u>28,024,640</u>
Total Federal investment and liabilities	<u>\$ 867,245,187</u>	<u>876,960,414</u>

The accompanying notes are an integral part of these power system combined financial statements.

SOUTHWESTERN FEDERAL POWER SYSTEM

Combined Statements of Revenues, Expenses, and Accumulated Net Revenues

Years ended September 30, 1999 and 1998

	<u>1999</u>	<u>1998</u>
Operating revenues:		
Sales of electric power:		
Cooperatives	\$ 63,670,608	62,194,000
Municipalities	28,744,657	23,679,272
Federal and state agencies	2,199,398	1,837,150
Banking exchange	7,324,819	3,486,210
Transmission service charges for others	9,150,990	7,281,323
Investor owned utilities	-	2,053,563
Other operating income	945,853	1,422,968
Total operating revenues before deferrals	<u>112,036,325</u>	<u>101,954,486</u>
Net purchase power credit and banking exchange	<u>3,724,471</u>	<u>11,392,952</u>
Total operating revenues	<u>115,760,796</u>	<u>113,347,438</u>
Operating expenses:		
Operation and maintenance	54,386,981	50,071,503
Purchase power and banking exchange	12,474,028	10,245,796
Depreciation	45,327,219	19,259,868
Transmission service charges by others	<u>2,476,521</u>	<u>2,695,163</u>
Total operating expenses excluding interest	<u>114,664,749</u>	<u>82,272,330</u>
Net operating revenues	<u>1,096,047</u>	<u>31,075,108</u>
Interest on Federal investment	23,341,537	18,793,259
Allowance for funds used during construction (AFUDC)	<u>(3,330,724)</u>	<u>(1,163,348)</u>
Net interest expense	<u>20,010,813</u>	<u>17,629,911</u>
Net revenues (deficits)	<u>(18,914,766)</u>	<u>13,445,197</u>
Accumulated net revenues:		
Balance, beginning of year	<u>111,920,057</u>	<u>98,474,860</u>
Balance, end of year	<u>\$ 93,005,291</u>	<u>111,920,057</u>

The accompanying notes are an integral part of these power system combined financial statements.

SOUTHWESTERN FEDERAL POWER SYSTEM

Combined Statements of Cash Flows

September 30, 1999 and 1998

	<u>1999</u>	<u>1998</u>
Cash flows from operating activities:		
Net revenues (deficits)	\$ (18,914,766)	13,445,197
Adjustments to reconcile net revenues (deficits) to net cash provided by operating activities:		
Depreciation	45,327,219	19,259,868
Post-retirement benefit expense	2,527,657	887,907
Interest expense on Federal investment	23,341,537	18,793,259
Allowance for funds used during construction	(3,330,724)	(1,163,348)
(Increase) decrease in assets:		
Accounts receivable	146,610	(490,104)
Materials and supplies	(261,630)	317,224
Banking exchange receivable	1,390,939	1,688,887
Deferred workers' compensation	(3,169,061)	278,166
Other assets	(10,113)	7,195
Increase (decrease) in liabilities:		
Accounts payable and accrued liabilities	(4,055,176)	(1,776,724)
Accrued workers' compensation	3,169,061	(278,166)
Other accrued liabilities	275,074	5,718
Purchase power and banking exchange deferral	(3,534,238)	(10,801,447)
Hydropower revenue deferral	10,109	16,334
Net cash provided by operating activities	<u>42,912,498</u>	<u>40,189,966</u>
Cash flows from investing activities -		
Additions to utility plant	<u>(33,363,761)</u>	<u>(18,793,209)</u>
Cash flows from capital financing activities:		
Congressional appropriations	84,878,499	67,124,370
Funds returned to U.S. Treasury	(97,713,522)	(93,736,203)
Interest on Federal investment - purchase power deferral	<u>(77,635)</u>	<u>(591,506)</u>
Net cash used in capital financing activities	<u>(12,912,658)</u>	<u>(27,203,339)</u>
Net decrease in cash	(3,363,921)	(5,806,582)
Cash at beginning of year	<u>19,560,848</u>	<u>25,367,430</u>
Cash at end of year	<u>\$ 16,196,927</u>	<u>19,560,848</u>
Noncash transactions -		
Transfer of plant in service from other Federal agencies	<u>\$ (2,905,830)</u>	<u>(865,602)</u>
Adjustment for change in Stockton allocation rates	<u>\$ 2,984,728</u>	<u>-</u>

The accompanying notes are an integral part of these power system combined financial statements.

SOUTHWESTERN FEDERAL POWER SYSTEM

Notes to Combined Financial Statements

September 30, 1999 and 1998

(1) Summary of Significant Accounting Policies

(a) *General Information and Basis of Preparation of Financial Statements*

The accompanying combined financial statements of the Southwestern Federal Power System (SWFPS) include the accounts of the Southwestern Power Administration (Southwestern), a unit of the U.S. Department of Energy (DOE), and the accounts of the Southwestern marketed hydroelectric generating plants and power operations of the U.S. Army Corps of Engineers (Corps), a unit of the U.S. Department of Defense. Southwestern and the Corps are separately managed and financed and each maintains its own accounting records. For purposes of financial and operational reporting, the facilities and related operations are considered one entity.

The Corps has constructed and operates hydroelectric generating plants in the states of Oklahoma, Missouri, Arkansas, and Texas. Costs of multi-purpose Corps projects are allocated to power and non-power purposes. The portion of such project costs allocated to power is included in the financial statements. Southwestern, as designated by the Secretary of Energy, purchases, transmits, and markets power.

The SWFPS is subject to the regulations of the Federal Energy Regulatory Commission (FERC). Accounts are maintained in accordance with generally accepted accounting principles, the uniform system of accounts prescribed for electric utilities by the FERC, the accounting practices and standards established by the DOE, and the requirements of specific legislation and executive directives issued by government agencies. The SWFPS' financial statements follow the accounting and reporting guidance contained in Statement of Financial Accounting Standards (SFAS) No. 71, *Accounting for the Effects of Certain Types of Regulation*. Allocation of costs and revenues to accounting periods for ratemaking and regulatory purposes may differ from bases generally applied by nonregulated companies. Such allocations to meet regulatory accounting requirements are considered to be generally accepted accounting principles for regulated utilities provided that there is a demonstrable ability to recover any deferred costs in future rates.

(b) *Confirmation and Approval of New Rates*

Integrated System rate schedules were placed into effect January 1998, and were confirmed and approved by the FERC on a final basis April 28, 1998. In April 1999, the FERC confirmed and approved on a final basis minor changes to those rate schedules and were effective January 1999.

(c) *Utility Plant and Depreciation*

Plant in service and construction and retirement work in progress are stated at original cost or at appraisal value for property transferred from other government agencies. Cost includes direct labor and materials, payments to contractors, indirect charges for engineering, supervision and similar overhead items, and allowance for funds used during construction. The costs of additions and betterments are capitalized. Repairs and minor replacements are charged to operation and maintenance expense. Generally, the cost of utility plant retired, together with removal costs less salvage, is charged to accumulated depreciation when the property is removed from service. Gains and losses are recognized only on sales of significant identifiable assets.

Depreciation on utility plant is computed on a straight-line basis over the estimated service lives of the various classes of property. Service lives currently range from 5 to 100 years for transmission plant and generating plant components.

During the current year, Southwestern implemented utilization of individual asset lives rather than composite group asset lives. Southwestern adopted the new lives in accordance with the 1989 Western Area Power Administration study of asset service lives. The cumulative effect of the change was recorded in fiscal year 1999.

(d) *Unexpended Appropriations*

Unexpended appropriations consist of the unexpended balance of funds appropriated by Congress for construction and operation and maintenance purposes and are maintained by the U.S. Treasury. For purposes of the statements of cash flows, unexpended appropriations are considered to be cash.

(e) *Congressional Appropriations*

Congressional appropriations received by the Corps are authorized and allocated to individual projects on a total project basis. These total project allocations are further distributed between power and non-power purposes at the discretion of project management. Power purpose allocations may vary from actual amounts expended during the year. It is the intent of the Corps' project management to distribute congressional appropriations in amounts approximating estimated current year expenses and to adjust the distribution as necessary within the limits of the transfer authority residing at the district level.

(f) *Purchase Power and Banking Exchange Deferral and Receivable*

A separate rate component (adder) recovers the cost of purchased power based upon the average purchased power costs over the past several years. If the actual expenses of purchased power exceed the revenue generated from this adder, the cost is deferred for future recovery through rates. Likewise, if the expense is less than the adder, the excess revenue is deferred.

In 1988, the SWFPS determined that the deferred revenue accumulated from the adder exceeded estimated requirements. As a result, refunds of the adder have been accomplished by including a purchase power credit in the rate schedules approved for each fiscal period from July 1, 1988, through September 30, 1999. The SWFPS calculates interest on the purchased power deferral at the applicable current interest rate established in the fiscal year of the deferral. Such interest is deferred to offset future purchase power costs.

The SWFPS has arrangements with certain customers in which excess power generated by the SWFPS is banked with the customer until needed by the SWFPS and the customer has excess power available. The SWFPS records a receivable for the power banked at the customers' cost of generation. The net revenue or expense associated with banking activity is deferred.

(g) *Operating Revenues*

Operating revenues are recorded on the basis of service rendered. Rates are established under requirements of the Flood Control Act of 1944, related legislation and executive departmental directives, and are to provide sufficient revenues to meet all required payments for system costs, including operation and maintenance expenses less depreciation, interest, and payment to the U.S. Treasury for the Federal investment in utility plant. Rates are intended to provide for recovery of the Federal investment in transmission and generating facilities within the service lives of the assets, not to exceed 50 years from the date placed in service, while operation and maintenance costs and interest on Federal investment are intended to be recovered annually.

As set forth in “Utility Plant and Depreciation” above, assets are being depreciated for financial reporting purposes using the straight-line method over their estimated service lives which currently range from 5 to 100 years for transmission and generating plant components. Accordingly, annual depreciation charges are not matched with the recovery of the related capital costs and will, in the case of generating facilities, continue beyond the period within which such costs will have been recovered through rates.

While energy and transmission rates are established to recover the costs of operating the power projects, rates are also required to be at the lowest possible level, consistent with sound business principles. Over the life of the power system, accumulated net revenues represent differences between the timing of the recognition of expenses and related revenues, resulting primarily from the difference between the recognition of depreciation and the related recovery of the U.S. Treasury’s investment in utility plant. Southwestern and the Corps are Federal entities, thus at any given time the accumulated net revenue (deficit) balance is deemed to represent deferred revenue or expense, respectively.

The practice followed by the SWFPS is in conformity with the accounting practices and standards established by the DOE and the requirements of specific legislation and executive directives issued by government agencies.

(h) *Interest on Federal Investment*

Interest on Federal investment is a cost mandated by the Secretaries of the Departments of Energy and Defense and by the FERC. Southwestern computes interest in accordance with DOE Order RA 6120.2, which provides that interest be computed on the remaining investment after revenues have been applied to recovery of costs during the year, any prior year unpaid costs, and then to Federal investment bearing the highest interest rate (see Note 4).

(i) *Allowance for Funds Used During Construction (AFUDC)*

The FERC Uniform System of Accounts defines AFUDC as the net costs for the period of construction of borrowed funds used for construction purposes and a reasonable rate on other funds when so used. While cash is not realized currently from this allowance, it is realized under the rate making process over the repayment life of the related property through increased revenues resulting from higher recoverable investment. The interest rates used are established by law, administrative order or administrative policy for the fiscal year during which the construction commenced (6.0 percent for fiscal year 1999, and 6.875 percent for fiscal year 1998).

(j) Retirement Benefits

SWFPS employees participate in either the Civil Service Retirement System (CSRS) or Federal Employees Retirement System (FERS), both contributory defined benefit plans. Agency contributions are based on eligible employee compensation and are submitted to benefit program trust funds administered by the Office of Personnel Management (OPM). The contribution levels, however, are legislatively mandated and do not reflect the full cost requirements to fund the plans. Other retirement benefits administered by the OPM include the Federal Employees Health Benefits Program and the Federal Employee Group Life Insurance Program.

Statement of Federal Financial Accounting Standards (SFFAS) No. 5, *Accounting for Liabilities of the Federal Government*, requires the Federal employer entity to recognize pension expense and other retirement benefit expense in its financial report equal to the service cost for its employees for the accounting period, less the amount contributed by the employees, if any. In accordance with SFFAS No. 5, Southwestern has recorded \$878,625 and \$887,907 of pension and retirement benefits expense, as of September 30, 1999 and 1998, respectively. The Corps has recorded \$1,649,032 of pension and retirement benefits expense as of September 30, 1999. No cost information was available as of September 30, 1998. Pension and retirement benefits expense is included as part of operation and maintenance.

(k) Workers' Compensation

In conjunction with the adoption of SFFAS No. 4, *Management Cost Accounting Concepts and Standards for the Federal Government*, and No. 5, the Department of Labor (DOL) and the DOE determined the Southwestern's actuarial liability associated with workers' compensation cases. The DOL determined the Corps' actuarial liability associated with workers' compensation cases.

The actuarial liability for future claims was determined using historical benefit payment patterns and U.S. Treasury discount rates. Accordingly, SWFPS has included \$5,497,294 and \$2,328,233 as an accrued liability as of September 30, 1999 and 1998, respectively. No actuarial liability for the Corps was available as of September 30, 1998 and therefore was not included in the previous balance.

The recognition of the expense related to this actuarial liability has been deferred as an other asset for the ratemaking process until such time as these claims are actually submitted and paid by the DOL. The total deferred expense relating to workers' compensation was \$5,497,294 and \$2,328,233 as of September 30, 1999 and 1998, respectively.

(l) Income Taxes

The SWFPS' income and facilities are exempt from taxation.

(2) Utility Plant

Plant in service and construction and retirement work in progress consist principally of generating and transmission facilities as follows:

	<u>1999</u>	<u>1998</u>
Generating facilities	\$ 992,814,588	966,169,465
Transmission facilities	<u>205,926,503</u>	<u>196,159,669</u>
	<u>\$ 1,198,741,091</u>	<u>1,162,329,134</u>

(3) Tentative Cost Allocations

Allocations of plant cost and operation and maintenance expense between power and non-power purposes for two of the Corps' operating projects, Cannon and Harry S. Truman, are presently based on tentative allocations. At September 30, 1999, total plant costs for these two projects were \$1,009,568,213, of which \$271,915,722 was tentatively allocated to power and subject to adjustment. The firm cost allocation has been approved for the Cannon (August 1998) project. Presently, the Corps of Engineers is in the process of redetermining the project costs based on the firm cost allocation percentages. The cumulative effect will be reflected as an adjustment to the project's financial statement when available.

The Harry S. Truman project has a tentative cost allocation of \$159,091,724 for power. Since being placed in service, this project's operations have been restricted because of limited ability to use the project's pump back capabilities. The restrictions have prevented the project from producing power to its design capacity. A final determination of when, if ever, the project can reach full generating capacity has not yet been made. If the restriction on generating capacity is not removed, some change in allocation of cost may be required. If such a change in allocation is required, the cumulative effect will be determined and reflected as an adjustment to the financial statements at that time.

During the current year, the Corps of Engineers redetermined the Stockton project costs based on the final cost allocation, which was approved in May 1997. The cumulative effect of the new allocation rates was reflected as an adjustment to the project's current year financials.

(4) Investment of U.S. Government

Construction and operation of the SWFPS transmission system and the Corps' generating plants and operations are financed through Congressional appropriations, except for the Robert Douglas Willis project which had its construction financed by other parties. The U.S. Government's investment in each generating project and each year's investment in the transmission system is to be repaid to the U.S. Treasury within the service lives of the assets, not to exceed 50 years from the time the facility is placed in service. There is no requirement for repayment of a specific amount on an annual basis. Annual revenues are first applied to the current year operating expenses (less depreciation) and interest expense. All annual amounts for such expenses have been paid through fiscal year 1999. Remaining revenues are to be first applied to repayment of operating deficits (which include all expenses except depreciation), if any, and then to repayment of the Federal investment. To the extent possible, while still complying with the repayment period established for each increment of investment and unless otherwise required by legislation, repayment of the investment is to be accomplished by repayment of the highest interest-bearing investment first. Interest rates applied to the unamortized initial investment of the U.S. Government in the Corps' hydroelectric plants range from 2.5 percent to 3.125 percent for facilities in service at the beginning of the year and 6.0 percent for facilities placed in service during 1999. Interest rates applied to the unamortized investment of the U.S. Government in Southwestern transmission facilities are approximately 2.5 and 6.875 percent for facilities in service at the beginning of the year and 6.0 percent for facilities placed in service during 1999. The rates have been set either by law, by administrative order pursuant to law, or by administrative policies using the U.S. Senate Document No. 97 formula for the fiscal year during which the appropriations were requested.

(5) Leases

Southwestern is obligated under various noncancelable operating leases, primarily for office space, that expire over the next ten years. Future minimum lease payments under noncancelable operating leases (with initial or remaining lease terms in excess of one year) as of September 30, 1999 are:

Year ending September 30,	
2000	\$ 484,000
2001	503,000
2002	527,000
2003	558,000
2004	576,000
Thereafter	<u>1,625,000</u>
Total future minimum lease payments	\$ <u>4,273,000</u>

(6) Commitments and Contingencies

Based on the 1999 Integrated System Power Repayment Study, the projected increase in capital investment in 2000 is \$35,064,526, which includes \$6,783,800 for transmission facilities and \$28,280,726 for generating facilities. The 5-year investment increase projected in the 1998 Power Repayment Study for 2000 through 2004 is estimated to cost \$85,211,226.

The SWFPS is a party to certain claims and legal actions arising in the ordinary course of business. In addition, the Corps has begun studies for the purpose of determining whether possible environmental contamination exists at various dam locations. The cost of remediation, if any, at these sites is unknown. In management's opinion, these actions will not have a material adverse effect on the financial condition or results of operations of the SWFPS.

(7) Restatement of Federal Investment

It was not determined how to properly recognize interest on Federal investment for power assets placed into service by the Corps districts within the SWFPS between 1970 and 1988. Interior Department Order 2929 was issued in 1970 and generally requires the use of annual interest rates as set by the U.S. Treasury for new power projects. The Corps and the DOE agreed in 1983 to begin using the U.S. Treasury interest rate in the calculation of the interest on the Federal investment related to new power projects. The agreement also stipulated that the interest rates from 1970 to 1983 be analyzed to insure compliance with the agreement. No Corps district had implemented the U.S. Treasury interest rate provisions prior to fiscal year 1989. Additional interest, if any, on Federal investment for the period 1970 to 1988 has not been included in the accompanying financial statements.

SOUTHWESTERN FEDERAL POWER SYSTEM

Combining Statements of Assets, Federal Investment, and Liabilities

September 30, 1999

Assets	<u>Southwestern</u>	<u>Corps</u>	<u>Total</u>
Utility plant:			
Plant in service	\$ 181,741,015	955,056,303	1,136,797,318
Accumulated depreciation	(62,000,447)	(317,424,971)	(379,425,418)
Construction work in progress	24,052,898	37,758,285	61,811,183
Retirement work in progress	132,590	-	132,590
Net utility plant	<u>143,926,056</u>	<u>675,389,617</u>	<u>819,315,673</u>
Current assets:			
Unexpended appropriations	9,665,589	6,531,338	16,196,927
Accounts receivable	15,130,321	76,266	15,206,587
Materials and supplies, at average cost	6,132,917	-	6,132,917
	<u>30,928,827</u>	<u>6,607,604</u>	<u>37,536,431</u>
Banking exchange receivable	4,865,231	-	4,865,231
Deferred workers' compensation	2,372,087	3,125,207	5,497,294
Other assets	11,785	18,773	30,558
Total assets	<u>\$ 182,103,986</u>	<u>685,141,201</u>	<u>867,245,187</u>
Federal Investment and Liabilities			
Federal investment:			
Congressional appropriations	\$ 698,296,650	1,578,315,034	2,276,611,684
Interest on Federal investment	43,166,664	675,528,399	718,695,063
Transfers from other Federal agencies	16,280,300	14,141,312	30,421,612
Gross Federal investments	<u>757,743,614</u>	<u>2,267,984,745</u>	<u>3,025,728,359</u>
Funds returned to U.S. Treasury	(698,719,146)	(1,576,658,787)	(2,275,377,933)
Net investment of U.S. Government	<u>59,024,468</u>	<u>691,325,958</u>	<u>750,350,426</u>
Accumulated net revenues (deficit)	<u>108,596,365</u>	<u>(15,591,074)</u>	<u>93,005,291</u>
Total Federal investment	<u>167,620,833</u>	<u>675,734,884</u>	<u>843,355,717</u>
Current liabilities - accounts payable and accrued liabilities	4,671,607	6,000,318	10,671,925
Accrued workers' compensation	2,372,087	3,125,207	5,497,294
Other accrued liabilities	-	280,792	280,792
Purchase power and banking exchange deferral	7,065,128	-	7,065,128
Hydropower revenue deferral	374,331	-	374,331
Total liabilities	<u>14,483,153</u>	<u>9,406,317</u>	<u>23,889,470</u>
Total Federal investment and liabilities	<u>\$ 182,103,986</u>	<u>685,141,201</u>	<u>867,245,187</u>

SOUTHWESTERN FEDERAL POWER SYSTEM

Combining Statements of Assets, Federal Investment, and Liabilities

September 30, 1998

Assets	<u>Southwestern</u>	<u>Corps</u>	<u>Total</u>
Utility plant:			
Plant in service	\$ 181,177,239	946,174,094	1,127,351,333
Accumulated depreciation	(33,209,868)	(301,549,033)	(334,758,901)
Construction work in progress	14,856,741	19,995,371	34,852,112
Retirement work in progress	125,689	-	125,689
Net utility plant	<u>162,949,801</u>	<u>664,620,432</u>	<u>827,570,233</u>
Current assets:			
Unexpended appropriations	13,780,053	5,780,795	19,560,848
Accounts receivable	15,210,789	142,408	15,353,197
Materials and supplies, at average cost	5,871,287	-	5,871,287
	<u>34,862,129</u>	<u>5,923,203</u>	<u>40,785,332</u>
Banking exchange receivable	6,256,170	-	6,256,170
Deferred workers' compensation	2,328,233	-	2,328,233
Other assets	19,484	962	20,446
Total assets	<u>\$ 206,415,817</u>	<u>670,544,597</u>	<u>876,960,414</u>
Federal Investment and Liabilities			
Federal investment:			
Congressional appropriations	\$ 671,855,901	1,519,877,284	2,191,733,185
Interest on Federal investment	41,107,927	654,323,234	695,431,161
Transfers from other Federal agencies	15,401,675	12,114,107	27,515,782
Gross Federal investments	<u>728,365,503</u>	<u>2,186,314,625</u>	<u>2,914,680,128</u>
Funds returned to U.S. Treasury	(670,702,592)	(1,506,961,819)	(2,177,664,411)
Net investment of U.S. Government	<u>57,662,911</u>	<u>679,352,806</u>	<u>737,015,717</u>
Accumulated net revenues (deficit)	125,659,159	(13,739,102)	111,920,057
Total Federal investment	<u>183,322,070</u>	<u>665,613,704</u>	<u>848,935,774</u>
Current liabilities - accounts payable and accrued liabilities	9,801,926	4,925,175	14,727,101
Accrued workers' compensation	2,328,233	-	2,328,233
Other accrued liabilities	-	5,718	5,718
Purchase power and banking exchange deferral	10,599,366	-	10,599,366
Hydropower revenue deferral	364,222	-	364,222
Total liabilities	<u>23,093,747</u>	<u>4,930,893</u>	<u>28,024,640</u>
Total Federal investment and liabilities	<u>\$ 206,415,817</u>	<u>670,544,597</u>	<u>876,960,414</u>

SOUTHWESTERN FEDERAL POWER SYSTEM

Combining Statements of Revenues, Expenses,
and Accumulated Net Revenues

Year ended September 30, 1999

	<u>Southwestern</u>	<u>Corps</u>	<u>Total</u>
Operating revenues:			
Sales of electric power:			
Cooperatives	\$ 63,670,608	-	63,670,608
Municipalities	28,744,657	-	28,744,657
Federal and state agencies	2,199,398	-	2,199,398
Banking exchange	7,324,819	-	7,324,819
Transmission service charges for others	9,150,990	-	9,150,990
Investor owned utilities	-	-	-
Other	146,926	798,927	945,853
Total operating revenues before deferrals	<u>111,237,398</u>	<u>798,927</u>	<u>112,036,325</u>
Net purchase power credit and banking exchange	3,724,471	-	3,724,471
Revenue distributed to Corps	<u>(67,271,388)</u>	<u>67,271,388</u>	<u>-</u>
Total operating revenues	<u>47,690,481</u>	<u>68,070,315</u>	<u>115,760,796</u>
Operating expenses:			
Operation and maintenance	19,837,038	34,549,943	54,386,981
Purchase power and banking exchange	12,474,028	-	12,474,028
Depreciation	29,275,004	16,052,215	45,327,219
Transmission service charges by others	<u>2,476,521</u>	<u>-</u>	<u>2,476,521</u>
Total operating expenses excluding interest	<u>64,062,591</u>	<u>50,602,158</u>	<u>114,664,749</u>
Net operating revenues (deficits)	<u>(16,372,110)</u>	<u>17,468,157</u>	<u>1,096,047</u>
Interest expense on Federal investment	2,136,372	21,205,165	23,341,537
Allowance for funds used during construction (AFUDC)	<u>(1,445,688)</u>	<u>(1,885,036)</u>	<u>(3,330,724)</u>
Net interest expense	<u>690,684</u>	<u>19,320,129</u>	<u>20,010,813</u>
Net revenues (deficits)	<u>(17,062,794)</u>	<u>(1,851,972)</u>	<u>(18,914,766)</u>
Accumulated net revenues (deficits):			
Balance, beginning of year	<u>125,659,159</u>	<u>(13,739,102)</u>	<u>111,920,057</u>
Balance, end of year	<u>\$ 108,596,365</u>	<u>(15,591,074)</u>	<u>93,005,291</u>

SOUTHWESTERN FEDERAL POWER SYSTEM

Combining Statements of Revenues, Expenses,
and Accumulated Net Revenues

Year ended September 30, 1998

	<u>Southwestern</u>	<u>Corps</u>	<u>Total</u>
Operating revenues:			
Sales of electric power:			
Cooperatives	\$ 62,194,000	-	62,194,000
Municipalities	23,679,272	-	23,679,272
Federal and state agencies	1,837,150	-	1,837,150
Banking exchange	3,486,210	-	3,486,210
Transmission service charges for others	7,281,323	-	7,281,323
Investor owned utilities	2,053,563	-	2,053,563
Other	218,589	1,204,379	1,422,968
Total operating revenues before deferrals	<u>100,750,107</u>	<u>1,204,379</u>	<u>101,954,486</u>
Net purchase power credit and banking exchange	11,392,952	-	11,392,952
Revenue distributed to Corps	<u>(66,907,999)</u>	<u>66,907,999</u>	<u>-</u>
Total operating revenues	<u>45,235,060</u>	<u>68,112,378</u>	<u>113,347,438</u>
Operating expenses:			
Operation and maintenance	17,789,267	32,282,236	50,071,503
Purchase power and banking exchange	10,245,796	-	10,245,796
Depreciation	3,975,772	15,284,096	19,259,868
Transmission service charges by others	<u>2,695,163</u>	<u>-</u>	<u>2,695,163</u>
Total operating expenses excluding interest	<u>34,705,998</u>	<u>47,566,332</u>	<u>82,272,330</u>
Net operating revenues	<u>10,529,062</u>	<u>20,546,046</u>	<u>31,075,108</u>
Interest expense on Federal investment	2,098,975	16,694,284	18,793,259
Allowance for funds used during construction			
(AFUDC)	<u>(1,079,006)</u>	<u>(84,342)</u>	<u>(1,163,348)</u>
Net interest expense	<u>1,019,969</u>	<u>16,609,942</u>	<u>17,629,911</u>
Net revenues	9,509,093	3,936,104	13,445,197
Accumulated net revenues (deficits):			
Balance, beginning of year	<u>116,150,066</u>	<u>(17,675,206)</u>	<u>98,474,860</u>
Balance, end of year	<u>\$ 125,659,159</u>	<u>(13,739,102)</u>	<u>111,920,057</u>

SOUTHWESTERN FEDERAL POWER SYSTEM

Combining Statements of Cash Flows

Year ended September 30, 1999

	<u>Southwestern</u>	<u>Corps</u>	<u>Total</u>
Cash flows from operating activities:			
Net revenues (deficits)	\$ (17,062,794)	(1,851,972)	(18,914,766)
Adjustments to reconcile net revenues (deficits) to net cash provided by (used in) operating activities:			
Revenue distributed to Corps	67,271,388	(67,271,388)	-
Depreciation	29,275,004	16,052,215	45,327,219
Post-retirement benefit expense	878,625	1,649,032	2,527,657
Interest expense on Federal investment	2,136,372	21,205,165	23,341,537
Allowance for funds used during construction	(1,445,688)	(1,885,036)	(3,330,724)
(Increase) decrease in assets:			
Accounts receivable	80,468	66,142	146,610
Materials and supplies	(261,630)	-	(261,630)
Banking exchange receivable	1,390,939	-	1,390,939
Deferred workers' compensation	(43,854)	(3,125,207)	(3,169,061)
Other assets	7,698	(17,811)	(10,113)
Increase (decrease) in liabilities:			
Accounts payable and accrued liabilities	(5,130,319)	1,075,143	(4,055,176)
Accrued workers' compensation	43,854	3,125,207	3,169,061
Other accrued liabilities	-	275,074	275,074
Purchase power and banking exchange deferral	(3,534,238)	-	(3,534,238)
Hydropower revenue deferral	10,109	-	10,109
Cash provided by (used in) operating activities	<u>73,615,934</u>	<u>(30,703,436)</u>	<u>42,912,498</u>
Cash flows from investing activities -			
Additions to utility plant	<u>(8,805,570)</u>	<u>(24,558,191)</u>	<u>(33,363,761)</u>
Cash flows from capital financing activities:			
Congressional appropriations	26,440,749	58,437,750	84,878,499
Funds returned to U.S. Treasury	(95,287,942)	(2,425,580)	(97,713,522)
Interest on Federal investment - purchase power deferral	<u>(77,635)</u>	<u>-</u>	<u>(77,635)</u>
Cash provided by (used in) capital financing activities	<u>(68,924,828)</u>	<u>56,012,170</u>	<u>(12,912,658)</u>
Net increase (decrease) in cash	(4,114,464)	750,543	(3,363,921)
Cash at beginning of year	<u>13,780,053</u>	<u>5,780,795</u>	<u>19,560,848</u>
Cash at end of year	<u>\$ 9,665,589</u>	<u>6,531,338</u>	<u>16,196,927</u>
Noncash transactions -			
Transfer of plant in service from other Federal agencies	<u>\$ (878,625)</u>	<u>(2,027,205)</u>	<u>(2,905,830)</u>
Adjustment for change in Stockton allocation rates	<u>\$ -</u>	<u>2,984,728</u>	<u>2,984,728</u>

SOUTHWESTERN FEDERAL POWER SYSTEM

Combining Statements of Cash Flows

Year ended September 30, 1998

	<u>Southwestern</u>	<u>Corps</u>	<u>Total</u>
Cash flows from operating activities:			
Net revenues	\$ 9,509,093	3,936,104	13,445,197
Adjustments to reconcile net revenues to net cash provided by (used in) operating activities:			
Revenue distributed to Corps	66,907,999	(66,907,999)	-
Depreciation	3,975,772	15,284,096	19,259,868
Post-retirement benefit expense	887,907	-	887,907
Interest expense on Federal investment	2,098,975	16,694,284	18,793,259
Allowance for funds used during construction	(1,079,006)	(84,342)	(1,163,348)
(Increase) decrease in assets:			
Accounts receivable	(537,786)	47,682	(490,104)
Materials and supplies	317,224	-	317,224
Banking exchange receivable	1,688,887	-	1,688,887
Deferred workers' compensation	278,166	-	278,166
Other assets	1,779	5,416	7,195
Increase (decrease) in liabilities:			
Accounts payable and accrued liabilities	(637,780)	(1,138,944)	(1,776,724)
Accrued workers' compensation	(278,166)	-	(278,166)
Other accrued liabilities	-	5,718	5,718
Purchase power and banking exchange deferral	(10,801,447)	-	(10,801,447)
Hydropower revenue deferral	16,334	-	16,334
Cash provided by (used in) operating activities	<u>72,347,951</u>	<u>(32,157,985)</u>	<u>40,189,966</u>
Cash flows from investing activities -			
Additions to utility plant	<u>(10,410,978)</u>	<u>(8,382,231)</u>	<u>(18,793,209)</u>
Cash flows from capital financing activities:			
Congressional appropriations	27,237,448	39,886,922	67,124,370
Funds returned to U.S. Treasury	(90,620,222)	(3,115,981)	(93,736,203)
Interest on Federal investment - purchase power deferral	<u>(591,506)</u>	<u>-</u>	<u>(591,506)</u>
Cash provided by (used in) capital financing activities	<u>(63,974,280)</u>	<u>36,770,941</u>	<u>(27,203,339)</u>
Net decrease in cash	(2,037,307)	(3,769,275)	(5,806,582)
Cash at beginning of year	15,817,360	9,550,070	25,367,430
Cash at end of year	<u>\$ 13,780,053</u>	<u>5,780,795</u>	<u>19,560,848</u>
Noncash investing activities -			
Transfer of plant in service from other Federal agencies	<u>\$ (871,956)</u>	<u>6,354</u>	<u>(865,602)</u>

FIVE YEAR STATISTICAL SUMMARY*

Revenue	1999	1998	1997	1996	1995
Annual gross revenue	\$115,760,796	\$113,347,438	\$113,024,275	\$103,727,910	\$114,264,178
Annual expense other than depreciation	-89,348,343	-80,642,373	-78,393,879	-85,104,611	-76,793,560
Net revenues (deficiency) available for repayment	\$26,412,453	\$32,705,065	\$34,630,396	\$18,623,299	\$37,470,618
Retirement losses/ gains	-660,702	-2,763,751	-3,770,641	833,454	-938,268
Cost allocation adjustment	-0-	-0-	-0-	-0-	-0-
Amount available for repayment	\$25,751,751	\$29,941,314	\$30,859,755	\$19,456,753	\$36,532,350

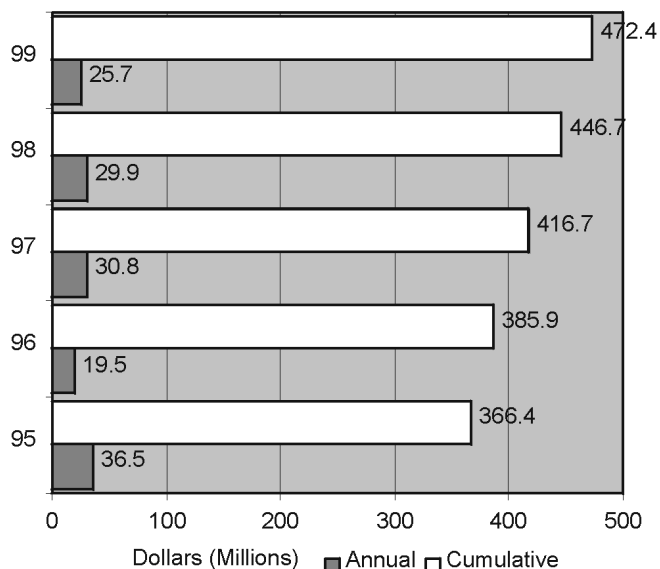
Repayable Investment

Generation	\$903,108,272	\$894,269,085	\$891,896,317	\$888,477,423	\$881,528,037
Transmission	181,873,605	181,302,928	170,034,987	141,662,989	125,803,294
Total repayable investment in completed plant	\$1,084,981,877	\$1,075,572,013	\$1,061,931,304	\$1,030,140,412	\$1,007,331,331

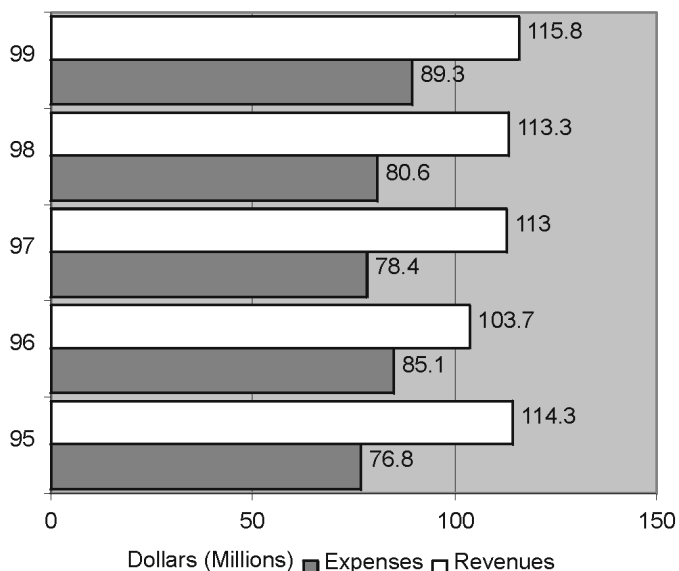
System Statistics

Total number of plants (hydro projects)	24	24	24	24	24
Miles of transmission line	1,380	1,380	1,380	1,380	1,380
Kilometers (km)	2,220	2,220	2,220	2,220	2,220
Generating capacity (MW)	2,158	2,158	2,158	2,158	2,158
Cost of generating plant investment per kW	418	414	413	412	409
Number of customers	93	101	96	92	95
Number of full-time equivalents (FTE)	170	174	175	184	194

Annual and Cumulative Repayment of Capital Investment



Annual Revenues and Expenses



*The Financial Statistical Summary has been restated to reflect data used in Southwestern's Power Repayment Studies which include prior years' adjustments.

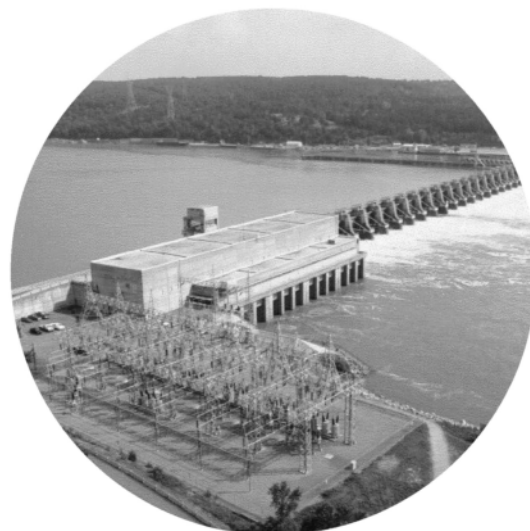
Unaudited - Supplementary Information

FEDERAL INVESTMENT IN GENERATING AND TRANSMISSION FACILITIES IN SERVICE

	1999	1998
Generating facilities	\$955,056,303	\$946,174,094
Transmission facilities	181,741,015	181,177,239
Total Investment	\$1,136,797,318	\$1,127,351,333
Adjustments:		
Retirement work-in-progress	132,590	125,689
Truman adjustment*	(31,730,282)	(31,687,260)
Dam Safety adjustment**	(20,217,749)	(20,217,749)
Total repayable investment	\$1,084,981,877	\$1,075,572,013

*Adjustment reflecting Harry S Truman's limited operating conditions and interim cost allocation rates.

**Dam Safety work not repayable: Beaver per P.L. 99-662



CUMULATIVE REPAYMENT STATUS

	Robert D. Willis	Sam Rayburn	Integrated System	Total SWFPS
Revenues	\$3,176,208	\$49,173,213	\$2,659,238,270	\$2,711,587,691
Expenses				
Operations and Maintenance	3,119,033	20,772,376	976,577,145	1,000,468,554
Purchased power and service charge	0	0	593,990,698	593,990,698
Interest	(112,862)	15,605,772	629,204,820	644,697,730
Total expenses	\$3,006,171	\$36,378,148	\$2,199,772,663	\$2,239,156,982
Revenue applied to amortization (Cumulative amortization)	\$170,037	\$12,795,065	\$459,465,607	\$472,430,709
Total unpaid investment	(\$170,037)	\$13,050,306	\$599,670,899	\$612,551,168

SOURCE AND DISTRIBUTION OF ENERGY FY 1999

Where It Came From	Millions kWh	%
Direct Purchase	13.7	0.2
Interchange	209.1	2.9
Losses / Purchases	116.6	1.6
Generated by Hydroelectric Plants of the U.S. Army Corps of Engineers	6,749.1	95.3
	<u>7,088.5</u>	<u>100.0</u>

Where It Went	Millions kWh	%
Losses	227.3	3.2
Interchange	82.7	1.2
Contract Exchange	185.6	2.6
Municipalities	2,202.0	31.1
Government Agencies	174.4	2.5
Cooperatives	4,216.5	59.5
Utility Companies / Others	0.0	0.0
	<u>7,088.5</u>	<u>100.0</u>

SOURCE AND DISTRIBUTION OF REVENUE FY 1999

Where It Came From	\$000	%
Miscellaneous	10,097	8.7
Deferred Revenue	3,724	3.2
Utility Companies / Others	0	0
Government Agencies	2,199	1.9
Municipalities	28,745	24.9
Cooperatives	63,671	55.0
Banking Exchange	7,325	6.3
	<u>115,761</u>	<u>100.0</u>

Where It Went	\$000	%
Available For Repayment	25,752	22.2
Interest Expense	20,011	17.3
Purchased Power & Bank Exchange	12,474	10.8
Transmission Service Charge	2,476	2.1
Operations, Maintenance, & Other*	55,048	47.6
	<u>115,761</u>	<u>100.0</u>

* Includes losses on retirement of assets booked through the depreciation reserve.

Unaudited - Supplementary Information

FINANCIAL PERFORMANCE INDICATORS - SOUTHWESTERN FEDERAL POWER SYSTEM

	FY 1999	FY 1998	FY 1997	FY 1996	FY 1995
Debt Service Coverage Ratio	1.064	1.200	1.239	0.847	1.276
Cumulative Principal Payments as a Percent of Total Federal Investment	41.55%	41.53%	39.24%	37.46%	36.40%
Percent Variance of Actual from Planned in Net Available for Repayment	9.07%	23.20%	25.52%	-23.03%	42.45%
Net Cash Flow to the Treasury (\$000)	\$23,970	\$21,291	\$33,274	\$8,163	\$10,745

POWER & FINANCIAL DATA SUMMARY - SOUTHWESTERN FEDERAL POWER SYSTEM - SEPTEMBER 30, 1999

Project	FY On-line Date	Installed Capacity kW	Estimated Average Annual Energy (Million kWh)	Net Energy Production (Million kWh)	Cost Assigned To Power **	Total Project Cost **	% Cost Assigned To Power
Beaver (AR)	1965	112,000	172	157	60,106,000	87,930,064	68.4
Blakely Mountain (AR)	1956	75,000	169	201	27,855,370	44,071,996	63.2
Broken Bow (OK)	1970	100,000	129	204	25,733,656	47,533,142	54.1
Bull Shoals (AR)	1953	340,000	785	701	71,752,038	109,475,185	65.5
Clarence Cannon (MO)	1985	58,000	90	145	108,903,467	379,362,009	28.7
Dardanelle (AR)	1965	124,000	613	528	72,903,898	121,901,699	59.8
De Gray (AR)	1972	68,000	97	78	23,657,159	78,484,702	30.1
Denison (OK/TX)	1945	70,000	219	181	24,666,234	75,883,569	32.5
Eufaula (OK)	1965	90,000	260	416	37,436,363	137,931,070	27.1
Ft. Gibson (OK)	1953	45,000	191	333	18,232,448	48,440,893	37.6
Greers Ferry (AR)	1964	96,000	189	135	36,488,380	58,524,556	62.3
Harry S. Truman (MO)	1982	*160,000	244	540	163,012,255	630,206,204	25.9
Keystone (OK)	1968	70,000	228	494	28,188,898	131,242,396	21.5
Narrows (AR)	1950	25,500	30	39	8,105,709	20,194,315	40.1
Norfolk (AR)	1944	80,550	184	169	23,585,719	77,949,867	30.3
Ozark (AR)	1973	100,000	429	337	44,539,623	102,803,842	43.3
Robert D Willis (TX)	1989	7,350	37	35	0	9,157,900	0.0
Robert S Kerr (OK)	1971	110,000	459	854	46,232,112	107,748,466	42.9
Sam Rayburn (TX)	1966	52,000	114	170	26,117,078	111,930,875	23.3
Stockton (MO)	1973	45,200	55	58	26,224,043	87,987,837	29.8
Table Rock (MO)	1959	200,000	495	521	58,550,384	88,814,964	65.9
Tenkiller (OK)	1954	39,100	95	159	14,009,231	30,726,820	34.8
Webbers Falls (OK)	1974	60,000	213	281	34,659,221	99,635,985	34.8
Whitney (TX)	1955	30,000	73	13	11,855,302	53,514,811	22.2
Totals		2,157,700	5,570	6,749	992,814,588	2,741,453,167	36.2

*Only 53,300 kW have been declared in commercial operation.

**Includes construction work in progress with plant in service less contributions in aid of construction.

DETAIL OF REVENUE FROM CUSTOMERS - FY 1999

CUSTOMERS	Capacity kW	Energy Delivered (000) kWh	Revenue From Power Sales (Dollars)
COOPERATIVES			
Arkansas Electric Cooperative Corporation	189,000	673,072	8,832,393
Associated Electric Cooperative, Inc.	519,000	1,124,914	21,343,267
Brazos Electric Power Cooperative, Inc.	35,200	26,851	1,204,613
Cajun Electric Power Cooperative, Inc.	91,400	323,089	4,256,632
Kansas Electric Power Cooperative, Inc.	100,000	359,395	4,689,096
Kaw Valley Electric Cooperative Co., Inc.	1,000	3,850	48,120
Nemaha-Marshall Electric Cooperative	1,000	3,850	50,520
Northeast Texas Electric Cooperative, Inc.	127,500	404,359	5,747,000
Rayburn Country Electric Cooperative	44,100	115,709	1,909,233
Sam Rayburn Dam Electric Cooperative, Inc.	52,000	170,425	2,168,136
Tex-la Electric Cooperative Of Texas, Inc.	28,200	73,489	1,217,563
Western Farmers Electric Cooperative	260,000	937,445	12,204,035
TOTAL COOPERATIVES (12)	1,448,400	4,216,448	\$63,670,608

* These sales were part of a trial to supplement Southwestern's energy banking program.

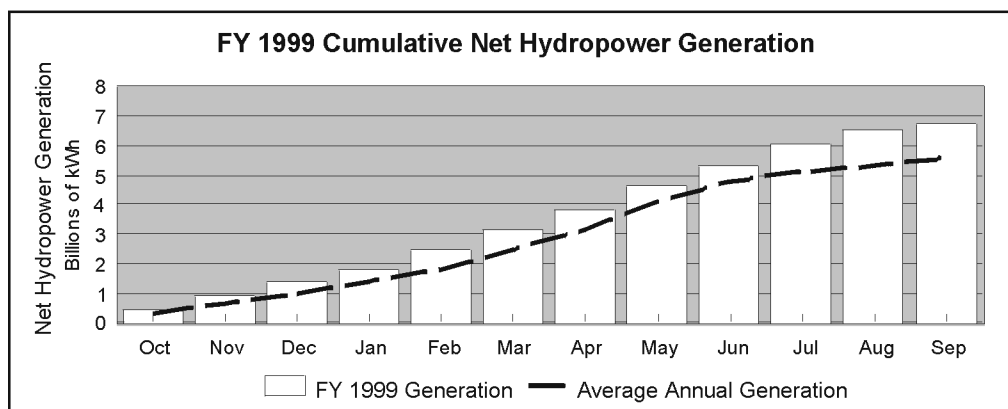
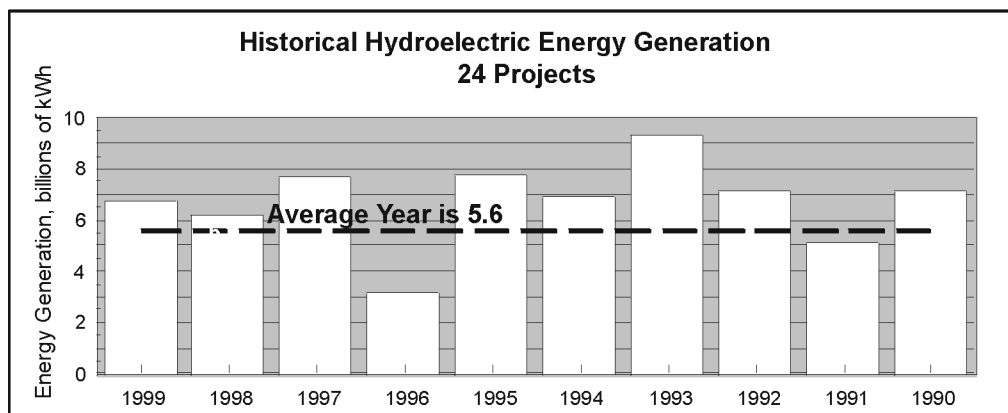
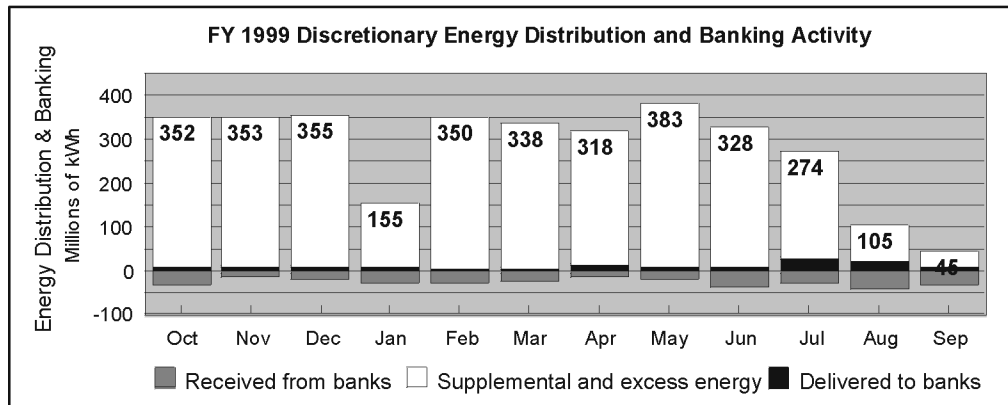
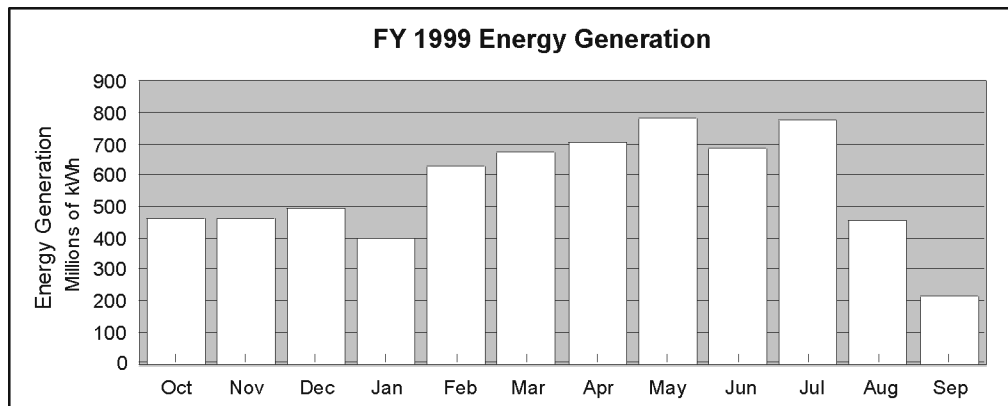
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Unaudited - Supplementary Information

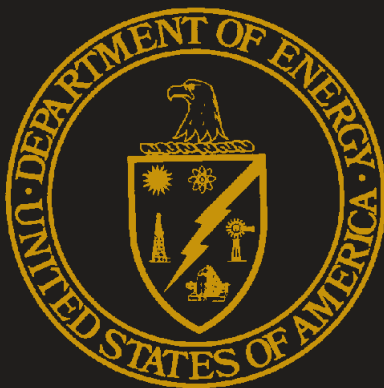
DETAIL OF REVENUE FROM CUSTOMERS - FY 1999

CUSTOMERS	Capacity kW	Energy Delivered (000) kWh	Revenue From Power Sales (Dollars)
GOVERNMENT AGENCIES			
Department Of The Army, Ft. Sill, Oklahoma	36,700	138,205	1,751,137
Army Ammunition Plant, McAlester, Oklahoma	2,688	10,122	128,257
Vance Air Force Base, Enid, Oklahoma	6,600	26,041	320,004
TOTAL GOVERNMENT AGENCIES (3)	45,988	174,368	\$2,199,398
MUNICIPALITIES			
Anthony, Kansas	300	1,172	14,518
Augusta, Arkansas	3,700	14,027	176,998
Bentonville, Arkansas	18,000	64,670	844,050
Carthage, Missouri	7,000	27,150	358,124
Clarksville, Arkansas	19,100	73,394	918,442
Coffeyville, Kansas	1,900	7,318	91,442
Comanche, Oklahoma	4,200	16,102	201,816
Copan, Oklahoma	2,500	9,585	120,129
Duncan, Oklahoma	32,500	124,598	1,561,674
Eldorado, Oklahoma	1,300	4,984	62,468
Fulton, Missouri	3,000	11,468	143,966
Goltry, Oklahoma	900	3,450	43,247
Granite, Oklahoma	2,300	8,818	110,518
Hermann, Missouri	5,800	21,276	273,850
Higginsville, Missouri	3,000	11,507	144,154
Hominy, Oklahoma	10,000	38,338	480,515
Jonesboro, Arkansas	80,000	301,566	3,809,346
Kansas City, Kansas	38,600	134,692	1,793,964
Kansas Municipal Energy Agency (Serves 24 Municipals)	11,200	40,494	526,354
Kennett, Missouri	11,000	40,418	553,082
Lafayette, Louisiana	18,000	53,991	790,011
Lamar, Missouri	12,000	43,710	565,582
Lexington, Oklahoma	4,100	15,719	197,011
Louisiana Energy & Power Authority (Serves 9 Municipals)	29,000	91,503	1,298,293
Malden, Missouri	5,000	19,119	254,427
Manitou, Oklahoma	600	2,300	28,831
Minden, Louisiana	2,400	9,178	115,202
Natchitoches, Louisiana	2,500	7,499	109,725
New Madrid, Missouri	4,500	16,870	227,617
Nixa, Missouri	5,300	19,268	265,092
Olustee, Oklahoma	700	2,684	33,636
Paragould, Arkansas	50,500	193,206	2,569,254
Paris, Arkansas	10,800	42,613	523,643
Piggott, Arkansas	4,900	18,614	248,751
Poplar Bluff, Missouri	39,500	147,003	1,993,583
Purcell, Oklahoma	14,500	57,212	703,039
Ryan, Oklahoma	1,900	7,284	91,298
Sam Rayburn Municipal Power Agency	7,350	34,900	302,928
Sikeston, Missouri	33,800	112,182	1,635,668
Skiatook, Oklahoma	11,000	39,490	515,592
Spiro, Oklahoma	4,000	15,335	192,206
Springfield, Missouri	50,000	181,753	2,350,772
Thayer, Missouri	2,800	10,718	134,438
Walters, Oklahoma	6,400	24,536	307,530
West Plains, Missouri	15,000	56,165	759,147
Wetumka, Oklahoma	2,600	9,968	124,934
Yale, Oklahoma	3,700	14,185	177,791
TOTAL MUNICIPALITIES (78)	599,150	2,202,032	\$28,744,658
TOTAL SALES BY SOUTHWESTERN OF ELECTRIC POWER AND ENERGY (93)	2,093,538	6,592,848	\$94,614,664

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Unaudited - Supplementary Information



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